UNITED NATIONS

A

General Assembly

Distr.
GENERAL

A/45/130/Add.1
14 May 1990

ORIGINAL: ENGLISH

Forty-fifth session
Items 126 and 127 of the preliminary list*

# ADMINISTRATIVE AND BUDGETARY CO-ORDINATION OF THE UNITED NATIONS WITH THE SPECIALIZED AGENCIES AND THE INTERNATIONAL ATOMIC ENERGY AGENCY

## JOINT INSPECTION UNIT

## Budgeting in organizations of the United Nations system

## Note by the Secretary-General

## Addendum

The Secretary-General has the honour to transmit to the General Assembly the comments of the Administrative Committee on Co-ordination on the report of the Joint Inspection Unit entitled "Budgeting in organizations of the United Nations system" (A/45/130).

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* A/45/50.

ANNEX

Comments of the Administrative Committee on Co-ordination

1. The Administrative Committee on Co-ordination (ACC) has studied the report of the Joint Inspection Unit entitled "Budgeting in organizations of the United Nations system" (JIU/REP/89/9, vols. I and II) and has found in it an objective and factual review of important aspects of current budgeting practice in the United Nations system. ACC believes that the report, and in particular the comparative tables in volume II (which it would be desirable for the Unit to bring up to date from time to time), will be a useful source of reference, both for Member States of the organizations of the system and for the organizations themselves as they pursue their aim of enhancing the comparability of their budgets and the compatibility of their budgeting methods and techniques.

2. ACC has noted that the report gives some recognition to past efforts in this domain and to the positive results already achieved in the harmonization of budget presentation and practice. At the same time, the Inspector has recognized the unavoidable limits placed on such efforts and results by the specificity of organizations' mandates, structures and activities and the resulting different requirements of their governing bodies. Thus he points out in paragraph 7 of the report that "the question of budgeting is indeed a very broad and complex one" and that "(budgeting) techniques and methods cannot be examined in isolation and irrespective of the overall budgetary and financial policy of the organizations". In the opinion of ACC, what matters most in the search for greater harmonization of budgeting methods and techniques is that new ideas should be shared and constructively discussed and that each organization should benefit from the experience of others.

3. The report goes beyond a comparison of budgeting techniques and methods alone by dealing with issues of broad financial management and policy. ACC can support a number of the observations and analyses made by the Inspector in this context. However, it considers that some of the related recommendations, notably recommendations 6 and 7, concerning the level of working capital funds and the gradual elimination of reserve accounts, must be read in the light of the actual financial situation, which in many organizations continues to be very critical. As the Inspector confirmed during a preliminary discussion of the report with financial managers of the organizations in the Consultative Committee on Administrative Questions (CCAQ), the recommendations relating to the financing of budgetary expenditures and the level of working capital funds are "based on the assumption of prompt and full payment of the assessed contributions of Member States, as provided for in organizations' financial regulations" (ACC/1989/15, para.9). The application of these recommendations would thus appear, for the present, to be a theoretical rather than a practical possibility.

4. The comments of ACC on these and other recommendations contained in the report are set out in the paragraphs below.

Recommendation 1

5. In this recommendation the Inspector calls for a review by those organizations which do not have programme budgets of the possibilities of introducing them and of developing them to give distinctive indications of planned outputs. He adds that a medium-term plan should constitute the principal policy directive for the organizations' programme budgets.

6. A number of organizations have integrated programme planning, budgeting and evaluation systems under which proposed budgets are formulated in the framework of medium-term plans and presented in programme terms. These organizations are continuing their efforts to make budget documents more transparent and specific with regard to planned outputs. One organization has recently introduced a budget format which for the first time contains a work programme setting out principles, objectives and priorities as well as cost estimates for its various programme activities. In some organizations the budget, while presented in terms of objects of expenditure, is adopted in the context of a detailed programme description and/or medium-term plan or of governing body decisions fixing levels of activities and resources over several budget periods. In a few cases medium-term planning has been found to be impracticable because of the nature of the activities performed, which have to respond to urgent needs as they arise. Thus, ACC believes that the organizations' response to this recommendation will have to depend on their specific circumstances and the requirements of their governing bodies.

Recommendation 2

7. In this recommendation the Inspector calls for the general adoption of a method of determining real resource growth under which budget estimates are recosted after having been compared with previous resource levels on a constant cost basis. As in the case of recommendation 1, ACC has noted that the practice recommended is already followed in a number of organizations; it has recently been introduced or is under consideration in others. Some organizations, also with a view to determining real growth on a constant cost basis, or for the sake of consistency and continuity, have preferred systems of recosting before comparisons. ACC believes that this recommendation also will need to be considered in the light of the specific circumstances of individual organizations and the requirements of their governing bodies.

Recommendation 3

8. This recommendation, which calls for the establishment by those governing bodies of organizations which have not already done so of a small group of experts to examine budget proposals and related matters, is for examination by the governing bodies concerned.

Recommendation 4

9. This recommendation calls upon organizations to consider the possibility of introducing a "contingency margin" in their approved budget (a portion of the appropriations not to be expended pending the receipt of contributions), after

review of the experience of organizations that have applied such a margin and discussion of the possibility in CCAQ.

10. After discussion in CCAQ as recommended, ACC has found no evidence that contingency margins encourage prompt payment of assessed contributions. Indeed, the available experience suggests that the opposite is the case, and that the most likely effect of contingency margins would be to lead Member States to limit their payments on the assumption that the programme and the budget were not authorized for full implementation. This would introduce an element of uncertainty about the programme to be implemented or would make the implementation of the programme dependent on the timing of payment of contributions.

11. It is, however, the question of principle that arises in this connection that constitutes, in the view of ACC, the most serious objection to contingency margins in the budgets of organizations of the system. The existence of such margins would imply that Member States had the option of not honouring the obligations provided for in the constitutional instruments and financial regulations to which they had subscribed in joining the organizations. ACC believes that there can be no compromise with the principle that when governing bodies approve a programme and a budget they intend them to be carried out in full. Member States then have an obligation to pay in full and on time the contributions required for this purpose.

Recommendation 5

12. Under this recommendation member States that tax the salaries of staff members of the organizations are called upon to compensate fully for the administrative costs involved in the related reimbursement arrangements and to cover both the reimbursements and the administrative costs in advance. ACC can support the recommendation in principle in the interests of alleviating financial burdens both for organizations and for nearly all member States, which do not levy such taxes, but considers that it is a matter for consideration in the first instance by the member States that do levy them.

Recommendation 6

13. In this recommendation the Inspector expresses the view that:

(a) Working capital funds should not in principle amount to more than one twelfth of the overall level of annual regular budgets (4 per cent for biennial budgets and corresponding percentages where budget periods are of different durations);

(b) Such funds should be used mainly to meet shortfalls in the receipt of assessed contributions (exclusively for that purpose after the restoration of organizations' financial viability).

14. The first part of the recommendation appears to recognize the need for working capital funds to provide a minimum of funds to cover temporary shortfalls in the receipt of assessed contributions. However, ACC has found no technical justification in the report to support the proportional relationships recommended

between the levels of working capital funds and of regular budgets. ACC believes, indeed, that differences in the experience of the various organizations as regards the rate and extent of collection of contributions would make any system-wide relationship between these levels impractical. An even more important objection to such a measure is that the long-standing financial situation of a number of organizations is characterized not only by late payment of contributions but also by failure to pay large amounts: in these circumstances working capital funds, whatever their relationship to the level of the regular budget, have proved to be insufficient. Accordingly, ACC views the first part of the recommendation with concern.

15. With regard to the second part of the recommendation, it is the case that the use of a number of working capital funds is restricted to financing budgetary expenditures pending the receipt of contributions. However, ACC sees no question of principle involved in such arrangements. It believes that the use of working capital funds in some organizations to meet unforeseen and extraordinary expenses reflects actual needs; it has indeed helped to reduce recourse to supplementary budgets and has also enabled organizations to make smaller budgetary provisions for unforeseen expenditure than would otherwise have been required. In other organizations the possibility of using working capital funds for other specific purposes approved by governing bodies has proved to be indispensable in practice.

Recommendation 7

16. This recommendation calls for the reduction and gradual elimination of reserve accounts and funds as organizations' financial viability is restored. Where absolutely necessary, supplementary budgets or, where this is not possible, a borrowing facility would be used in their place. Interest and other charges resulting from borrowing would be borne by those member States which have failed to pay their assessed contributions promptly and in full.

17. ACC has noted that this recommendation is predicated upon the restoration of normal financial conditions, a situation which it may not be realistic to expect in the near future. ACC regards reserve accounts or funds simply as one of the instruments of financial management available to organizations for use according to their circumstances. Borrowing is another such instrument. The treatment recommended for interest and other charges resulting from borrowings is for the consideration of Governments. ACC notes, however, that proposals concerning the payment of interest by Governments on unpaid contributions have not so far been accepted by most governing bodies.

Recommendation 8

18. This recommendation, aimed at minimizing the adverse effects of currency fluctuations, provides that:

(a) Organizations incurring over 85 per cent of their expenditures in the currency of their headquarters country should adopt that currency for budgetary purposes;

(b) All other organizations should consider introducing split-assessment schemes based on their two main currencies of regular budget expenditure or, where appropriate, forward purchasing arrangements for their estimated currency needs.

19. The arrangements recommended are among several which ACC has had under study for some time in the framework of a continuing review of measures to deal with the budgetary effects of currency instability. The organizations referred to in the first part of the recommendation all budget in the currency of their headquarters country. Split-assessment schemes have been introduced in several other organizations, and ACC has arranged to follow up regularly on the results. ACC will also follow up on experience with the forward purchasing of currencies introduced where favourable market conditions have been found to exist for the types of transactions required.

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